

1/27/03
#5

MEMORANDUM

January 23, 2003

TO: BOS

FROM: Peter K. Ashton

SUBJ: A and B Budgets

cc: Don Johnson

Attached along with a memo from the Manager are the draft final A and B municipal budgets that are the result of considerable work and effort on behalf of the Town Manager, the Assistant Town Manager and staff. These budgets have been prepared at the request of the Selectmen (primarily me) based on the suggested changes I presented to the Board in December and the Scenario A plan presented in early January. We have worked together to develop these budgets, but they do reflect a different course of action than what the Manager originally recommended to us. Thus there are more FTE cuts in the A budget (mostly OT) and in the B budget. Risks with regard to other items have been reduced.

Further, the A budget reflects the multi-year plan that I presented to the Board earlier this month as Scenario A, and reflects additional budget cuts of \$221,000 from the prior budget of \$19,262,000. The schools made cuts totaling \$570,000 in their A budgets on Tuesday, reflecting their agreement with this plan as well. The plan was also agreed to by ALG last week. To refresh everyone's memory, Scenario A includes the allocation of \$600,000 in free cash in FY03 to bolster the health insurance trust (assuming commensurate contribution from our employees), budget reductions of \$790,000 in FY04 along with \$793,000 in free cash appropriated to balance the FY04 budget after a \$3 million override, and use of \$2.1 million in free cash to balance the FY05 budget with no override, and further budget reductions.

The municipal B budget reflects added cuts of approximately \$560,000 which represents our share of total B budget cuts of approximately \$2 million. There is still no agreement on the total B budget cuts, although I had presented a plan to this Board and to ALG calling for an additional \$250,000 in B budget cuts. Although this Board supported that proposal, that proposal was not agreed to at ALG (although Fincom indicated a willingness to support it), and it was rejected by the School Committee at their meeting earlier this week. SC would prefer to keep the B budget cuts at a total of \$2 million and use an additional \$1 million in free cash, leaving only about \$650,000 in free cash to deal with the uncertainties of FY05. I will be happy to discuss my views on this decision at the meeting on Monday, but based on that decision, I instructed the Manager not to

present any additional cuts in the B Budget (under my plan the difference in our A and B budgets would be \$630,000 - 28% of the additional \$250,000 in cuts). The B budget as being presented to the Board reflects cuts of only \$560,000 (28% of \$2 million). I do strongly believe that an agreement must be reached on the level of the B budget in comparison to the A budget, and it should be done so as to leave us some budgetary flexibility going forward in FY05 should the override fail this year.

It is clear that the budgets will remain in flux as we move toward the ballot vote and it is equally clear that we must agree on a budget on Monday night with which to go forward so that we can begin in earnest the process of selling the override. Nevertheless I want to alert the Board to certain issues and realities which lead me to reconsider possibly the extent of the A budget cuts and which should be presented at Thursday's ALG meeting. These are listed below.

1. I strongly believe the difference between the A and B budgets must be greater than \$2 million if the override is to have a reasonable chance of success. In my opinion, the SC's decision not to make further B budget cuts is a real threat to the likely success of the override.
2. The A budget cuts are deeper than the Town Manager or I would like to see. When I presented these cuts in Scenario A, they reflected a compromise between our position and the \$1million in cuts the schools had suggested. Based on the schools unwillingness to make further B budget cuts, and the extensive pain we all see in the A budget cuts, I think we should rethink the extent of these cuts in the A budget.
3. Further, the likelihood of our being able to actually use the full \$600,000 in free cash for the health insurance trust in FY03 now seems remote. Town Manager will fill us in on legal counsel's opinion on Monday, but regardless the Trustees would have to impose at least a 50% increase in rates to generate \$600,000 in cash over the last four months of FY03. I'm not sure that is this would be the right strategy at this point in time. Thus some significant amount of the \$600,000 previously allocated to solve the health insurance trust this year may be available to use for FY04 should we decide not to make the full A budget cuts. Also this places greater pressure on the FY05 budgets since health insurance is likely to consume a larger percentage of the budget.
4. Budget uncertainties continue in FY03 and we need clarification from both Don and the schools as to whether any group expects to make a request to use any free cash to solve FY03 budget problems. Based on Don's comments at our last meeting, I do not expect that we will, but we need clear direction in this regard. Should we need \$200,000 in free cash to solve FY03, then I would suggest that it come from the \$600,000 currently allocated for the health trust.
5. I fully expect that the FY04 state aid cuts in the Governor's budget are likely to be greater than the 15% we currently have budgeted in the ALG plan. Thus in the

future, i.e., before April 1st, we still may have to make further A and B budget cuts or allocate a higher amount of free cash for FY04. Thus I would prefer to see a somewhat higher level of free cash used to balance the A budget right now, recognizing that we could still make further cuts in the future (but the schools HAVE to recognize that in the event of further state aid cuts that additional B budget cuts will have to be made).

6. The A budgets for FY04 as they currently stand are agreed to by ALG and all three Boards, and time is running short to gain the momentum to pass the override. To change the A budgets would require another round of ALG and SC meetings which may simply be too late at this point in time.
7. Finally, if we put \$300,000 in FY03 toward the health insurance trust rather than \$600,000, it still relieves the pressure somewhat (42% increase vs. 51% in FY05), and gives us more free cash to put toward one of three areas:
 - a. FY04 A budget allowing fewer budget cuts;
 - b. FY03 budget shortfalls;
 - c. FY05 uncertainties.

These are all issues for discussion Monday night, but again I would like to thank the Manager and his staff for all of their assistance in implementing the budgetary plan shown in the attached documents.